WHEN THE STARS ALIGN:
WHY 2020 IS THE YEAR FOR CHARITABLE GIFTS

August 10, 2020
• Combining the gift to family, estate planning and charitable giving landscapes

• Recent legislation enhances the impact of philanthropic planning

• Identify why 2020 is the ideal year for charitable giving to La Jolla Institute

• Tips for helping you and your heirs – while supporting public charity
QUESTIONS DONORS ASK

Inspiration to give (like good research!), starts with some questions:

— Is this the right time for me to make a Major Gift?
— Which of my assets are best to give?

— Should I give now? Or next year? Or in my will?
— How can I give in the smartest, most tax-advantaged way?

— Can I gift to charity and still provide for my family?
— I planned on pledging over a number of years. Is there an advantage to making those gifts sooner?
• 2020 is a unique moment in history. Donors want to help and LJI is a unique organization whose research makes a meaningful impact

• LJI’s research can save countless lives, ease hardship, help the world economy, and shape our future as a community and a planet

• Donors’ current opportunities to give align with LJI’s vision for “Life Without Disease”, supported by LJI’s resources and researchers

• 2020 is a “Once in a generation opportunity” to plan for your family’s future

• CARES Act
  - Never been more beneficial to gift cash to charity
  - Only a few months left in the year to receive maximum benefit
2020 is an opportune time for high net worth individuals to transfer their wealth

- During times that securities and business values are depressed, it is a great time to transfer assets
- Increased volatility results in larger discounts on assets, business valuations, and minority interests
- AFR and §7520 interest rates used for intra-family loans and transfer via trusts are at all-time lows
- Significant lifetime gift-tax exclusion remains for many taxpayers to provide for family
- Taxes of all types are anticipated to increase in the future

Significant estate planning opportunities for gifts, family loans, GRATs, installment sales, charitable lead trusts

These conditions are predicted to endure for a short time . . . but after 2020, what happens is anyone's guess
Helpful tool for planning: tinyurl.com/LowVLowR

Once you have planned for family, then you can plan for charity
LEGISLATION & TAX CODE CHANGES
SECURE ACT & CARES ACTS

• **SECURE Act (Dec. 2019)**
  — *The “stretch” IRA for children is no longer allowed*
    Result: Beneficiaries receive all funds within 10 years and pay income tax much sooner than hoped
  — *Increased incentive for lifetime use of QCDs, testamentary giving and naming a CRT as beneficiary of IRA*
  — For philanthropic individuals, charity is the most efficient beneficiary for your IRA

• **CARES Act (March 2020)**
  — In 2020, you may deduct 100% of AGI for cash gifts to operating and public charities like LJI
  — Qualifying cash gifts by partnerships and S-Corps also eligible
  — The limit for gifts from C-corps increased from 10% to 25%

  *NOTE: Private non-operating foundations, supporting organizations, and donor-advised funds do not qualify.*

• **Net Operating Loss Carrybacks (NOL)** – Estimated $135 Billion in tax refunds will be made to HNW Business Owners
  — NOL carrybacks allowed up to five years for taxable years 2018-2020. Losses offset 100% of income
  — *Creates significant immediate tax refunds*... refunds can then be gifted, generating more tax benefits

*Creating large tax deductions and NOL tax refunds = incentives for gifting in 2020 – a year of great need*
CARES ACT – COMBINING FAMILY & CHARITY BENEFIT

• CARES Act
  – 100% of AGI cash gifts lead to new planning opportunities
  – Can accelerate ability to transfer wealth to family with minimal tax while gifting to charity

• Cash Gifts vs. Appreciated Assets
  – Donors often make gifts of appreciated assets. Deduction use limited to 30% of AGI.
  – In 2020, a cash gift deducted at 100% of AGI - may be more advantageous than a gift of appreciated assets
    *Note: Check state law for AGI limits and consult with your own tax and legal advisors

• To optimize opportunity of an all-cash gifts, Donor should work with key advisors
  – Making cash available when fully invested can require your advisors input
  – Harvesting tax losses can balance out gains. Cash is available with no tax. Can then gift cash.
  – Net Operating Loss (NOL) carrybacks paired with cash gifts = double the write off

• Ideal time to combine NOL and cash gifting with Roth IRA conversion and estate planning

• 2020 is a year to consider selling high basis assets (real estate, annuities, art, etc.) and gifting the after tax proceeds
“Private Philanthropy is the most effective way to rapidly propel COVID-19 research forward.”
WHICH ASSETS ARE BEST TO GIFT?

• Look to low or non-income assets – real estate, short term bonds, CDs, etc.

• High basis assets: Stock, annuities, life insurance, art, inherited assets

• Where else can money come from for my cash gift?
  — Corporation or other entity with retained earnings
  — Tax Refunds from NOL write-offs
  — Tax Savings from charitable deductions

• Private Foundations & Donor Advised Funds – existing funds will not create new deductions, but can lead to great work at important time
PLANNING OPPORTUNITIES
CHARITABLE LEAD ANNUITY TRUSTS – HISTORICAL OPPORTUNITY

- **Charitable Lead Annuity Trust (CLAT)**
  - CLAT makes an annual payment to charity per a fixed schedule...much like a pledge
    - After trust terminates, remaining assets are distributed to beneficiaries or a trust for their benefit – Jackie Onassis and the Walton family famously used this technique
  - The tax angle:
    - The present value of the remainder interest is a taxable gift
    - The present value of the income stream to charity is available as an *income-tax* charitable deduction. Can be taken in year one for large tax savings
  - Assets in CLAT only need to exceed 0.4% return - remainder benefit to family – *tax-free!*

- **Why set up a CLAT in 2020?**
  - Depressed asset values reduce the gift transfer value to family beneficiaries
  - Low interest rates increase the gift tax deduction – current 7520 rate at historic level - 0.4%
  - Appreciation in excess of assumed growth rate transfers free of gift tax to heirs

  *CLAT memorializes annual gifts - benefitting charity AND your family*
• SECURE and CARES Acts create “perfect storm” to consider a Roth IRA conversion

• Converting from a traditional IRA to a Roth IRA results in income tax impacts
  – Ordinary income tax will be owed on the converted portion of the traditional IRA
  – Roth IRA distributions will no longer be subject to income tax
  – Roth IRA is subject to gift and estate tax...but now a very income tax-efficient asset for heirs

• Combining a charitable gift with Roth IRA conversion mitigates both current and future income taxes
  – Qualifying cash gift in 2020 results in a tax deduction at 100% of AGI
    • Gifts can be structured to offset the tax owed from the Roth conversion
    • The larger the gift, the larger the Roth Conversion that can be made for your family

• Roth Conversions can also be paired with CLAT or tax refunds from NOL carrybacks

• Ideal way to benefit charity and create tax-free income bucket for yourself and family
• **Current Fact Pattern:**
  – Donor to gift $2 million through his will. Also planned for grandson, age 30, to inherit his $2M IRA to use for grandson’s retirement
  – But SECURE Act ended the “Stretch IRA” - funds must be distributed within 10 years of inheritance
  – Assuming 7.2% growth, the IRA will be worth $4M (pre-tax) at the end of 10 years = $2M net after-tax distribution

• **Roth Conversion Solution:**
  - Roth Conversion made in 2020 and a $2 million cash donation made to offset the taxes owed from Roth Conversion
  - At the end of same 10 years, the Roth IRA would be worth $4M with no tax owed vs $2M after-tax with a traditional IRA

• If grandson inherited at age 30, and Roth vs. Traditional IRA comparison was made at age 40...
  – Project forward 30 years until his retirement – Assume 4.8% growth after tax.
  – Value at age 70 – Roth Solution ≈ $16M vs. ≈ $8M compared with Traditional IRA sourced funds

• All from a $2M cash gift in 2020 – a gift that was planned in the will

• Same estate tax on a Roth IRA as a Traditional IRA... Which would your heirs prefer?...the Roth IRA!

• **2020 is the year for Roth/Cash Gift Combo**
“The Compound Gift” optimizes tax savings from an initial gift to charity to fund ongoing, future charitable contributions ... either outright or as Planned or Endowed Gifts
  - First gift of cash or appreciated asset generates tax deduction and results in tax savings
  - Donor pledges tax savings. Added gifts “compound” tax savings. Create more gifts...

Ideal to gift inefficient, non-income producing assets no longer needed
  - Concentrated stock position, real estate, insurance, annuities, art, personal property

2020 allows us to compare the benefit of traditional gift of appreciated assets vs. sale of assets with gift of cash instead. Both are “Good”. Facts and analysis determine which is “Better”

As tax brackets and AGI increase, value of deduction carry-forward increases

Higher tax bracket = Greater tax savings = Increased compound giving
COMPOUND GIFT — ENDOWMENT EXAMPLE

• Initial gift (1st Gift) funds important research in 2020 and beyond
• Endowment funded entirely with Compound Gift (2nd Gift) from tax savings

• How it works:
  – Donor pledges tax savings from current gift…as well as compounding tax savings
  – Each year, the charity receives gifts to the endowment
  – **No out of pocket cost to donor or charity.** Gifted tax savings build endowment
  – Gifting designed with flexibility if tax law or AGI changes. Only actual tax savings are gifted
# Cash Gift Case Study

## Gifting Summary

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<th>Annual Gift</th>
<th>Federal Deduction*</th>
<th>Federal Carry Forward</th>
<th>Federal Tax Savings</th>
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Total Tax Savings: $2,413,773  
Gifting to Charity: $2,413,773  
Savings Retained by Smith Family: $0

* Federal deduction is utilized at 100% of AGI for cash donations in 2020, 60% in years 2 - 6 and 50% thereafter.

* State (CA) deduction is utilized at 50% of AGI for cash donations.
QUALIFIED CHARITABLE DISTRIBUTIONS (QCD) FROM IRA

- QCDs are direct gifts to qualified charities from an IRA
  - Donation is excluded from Adjusted Gross Income (AGI)
  - Satisfies Required Minimum Distribution (RMD) rules
- Limitations to QCD:
  - Must be 70 1/2 before making a QCD
  - Cannot exceed $100,000 / per person / per year. If each spouse has an IRA = $200,000/year
  - Distributions must be made from the IRA directly to the public charity
    - No taxable income & no itemized deduction
  - QCD can NOT be made to private foundations or donor advised funds
  - Charity must provide a contribution acknowledgment to the donor

Diagram:
- IRA
- Bypass Donor
- QCD Gift
- Charity
CASE STUDY: HOW TO BUILD AN ENDOWMENT WITH QCDS

Fact Pattern

• Couple aged 70 ½, each with a large IRA. Wish to use a portion of IRAs to endow charitable gifts. QCD approach optimizes their gift & estate planning goals for family and LJI

• Each use $100,000 QCDs from own IRA for annual gifts to LJI

• Donors can choose current research, or build an endowment

• If endowed, 5% annual distributions will fund current research

• Over 25 years, $5 million is gifted into endowment. At 5% endowment payout, $2.25 million is distributed for research

Note: The $5 million endowment is permanent. $250,000/year is received in perpetuity and used for
Wealth Transfer / Estate Planning has never been easier
- Ultra-high net worth are asking the question: “How much is too much for my kids?”
- Philanthropy is more important than ever
  - Wealth is being created at younger ages
  - Gifting during lifetime becoming more popular – gifting with impact / seeking current results

Repositioning balance sheet to achieve desired results

We have seen a shift in how high net-worth individuals are utilizing their assets in 2020

shift in planning
TIPS FOR SPEAKING TO YOUR ADVISOR

PREPARING TO SEE YOUR TRUSTED ADVISORS
• Be prepared with your thoughts, goals and objectives – select charities in advance
• Tell your advisor that you want to make a gift happen as soon as possible
• You don’t want to wait for year end, the election, or next year
• Ask for their help to make the gift quickly, efficiently, and wisely
• Ask for their assistance to coordinate with overall estate planning for family

WHY PREPARE? – Because ….ADVISORS CAN SAY THE DARNDEST THINGS
  - “Wait to make your pledge - tax brackets might be higher in the future”
  - “Wait until December to make your gift/pledge”
  - “You may want to spread out your gifting over several years”
TURN IRA INTO IRA CHARITABLE REMAINDER TRUST

- Gift of an IRA to a CRT can provide income to heirs over a longer period than allowed under the SECURE Act,

- The IRA CRT makes annual payments for life or a term of years to the current beneficiary(s)
  - At the end of the term (or life), the remaining assets will be distributed to charity(s)

- Ability to **defer gain** allows increased income, growth, and diversification
  - IRA-CRT is exempt from tax on its investment income; distributions primarily ordinary income
  - Ideal vehicle to benefit heirs with cash flow... and provide remainder gift to charity

**The IRA-CRT has many benefits:**

- Provides **annual cash flow** to the current beneficiary. Present Value of the cash flow is a gift to heirs
- **Donor reduces value of gift** to heirs by present value of remainder interest going to charity

- **CRT must be established and designated as IRA beneficiary during lifetime of participant**
IRA CRT: HOW IT WORKS (EXAMPLE)

- IRA transferred to CRT at death earns 6%
- Heirs receive 5% payout for 20 years
- Heirs receive $9.3 million in taxable distributions
- Heirs can choose to gift some of the income, or terminate the trust and transfer corpus to charity
- Remainder passes to charity – grown to $10 mil.
Charitable planning techniques to consider in 2020

1. Cash gifts to LJI with 100% AGI deduction
2. Consider gifting of funds already in Family Foundation, Donor Advised Fund, or Company
3. Charitable Lead Trusts – 2020, a perfect time to benefit family and charity
4. Name LJI or an IRA-Charitable Remainder Trust as beneficiary of your IRA
5. Pair a 2020 Major Cash Gift or NOL carryback with a Roth Conversion
6. Use the Compound Gift to fund an Endowment at LJI
7. Qualified Charitable Distributions (QCD)— use for outright gifts or endowments
8. Utilize life insurance to leverage and endow future gifts

Wealth transfer techniques to consider in 2020 to benefit your family

1. Grantor Trust
2. Intrafamily loan
3. Installment sale with a note
4. Dynasty Trust
5. Charitable Lead Trust
6. Utilize life insurance to cover estate tax liability. More after-tax family = more available for charitable gifts
WHEN THE STARS ALIGN: WHY 2020 IS THE YEAR FOR CHARITABLE GIFTS

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